

Message Text

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INR-07 IO-13 NEA-10 NSAE-00 OPIC-03 SP-02 TRSE-00

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TO SECSTATE WASH DC IMMEDIATE 4364

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PASS TREASURY AND AID/PPC

E.O. 11652: N/A

TAGS: EAID, EFIN, OECD, CIEC

SUBJECT: REVISED EEC/US PROPOSALS ON LDC DEBT

FOLLOWING IS TEXT OF REVISED US/EC PROPOSALS ON LDC
DEBT PRESENTED TO CONTACT GROUP ON DEBT NOVEMBER 18.

QUOTE. 1. PARTICIPANTS IN THE CIEC RECOGNIZED AT THE
OUTSET THAT INDEBTEDNESS PER SE IS NOT NECESSARILY AN
INDICATION OF FINANCIAL OR ECONOMIC WEAKNESS ON THE PART
OF THE DEBTOR COUNTRY, AND THAT EXTERNALLY-BORROWED
FUNDS CAN BE PARTICULARLY USEFUL TO DEVELOPING
COUNTRIES AS A SUPPLEMENTAL SOURCE OF FINANCING FOR
ECONOMIC GROWTH.

2. THEY RECOGNIZED THAT THE AVOIDANCE OF DEBT SERVICING
DIFFICULTIES UNDER CONDITIONS THAT ARE GENERALLY CON-
SISTENT WITH AN ORDERLY DEVELOPMENT PROCESS IN DEVELOP-
ING COUNTRIES IS IN THE INTEREST OF BOTH CREDITOR AND
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DEBTOR COUNTRIES. THEY NOTED THAT IT IS DESIRABLE THAT

INTERNATIONAL FINANCIAL INSTITUTIONS, DONOR COUNTRIES AND DEVELOPING COUNTRIES SHOULD CONTINUE TO COOPERATE SO THAT FINANCIAL PROBLEMS WHICH MAY UNDULY HAMPER PROGRESS TOWARDS ECONOMIC AND SOCIAL DEVELOPMENT CAN BE AVOIDED BY TIMELY AND EFFICIENT MANAGEMENT OF RESOURCES. TO THIS END:

- DONOR COUNTRIES WOULD ASSIST THE DEVELOPING COUNTRIES IN MANAGING THEIR EXTERNAL FINANCIAL PROBLEMS INTER ALIA BY ENSURING THAT THEIR ASSISTANCE IS COMPATIBLE WITH THE RECIPIENTS' DEVELOPMENT SITUATION AND BY ASSURING THAT THEIR CAPITAL MARKETS DO NOT DISCRIMINATE AGAINST DEVELOPING COUNTRIES, OFFERING TECHNICAL ADVICE AND ASSISTANCE ON DEBT MANAGEMENT TECHNIQUES, INCLUDING ADVICE ON THE USE OF COMMERCIALY-BORROWED FUNDS;

- FOR THEIR PART, DEVELOPING COUNTRIES WOULD INTER ALIA PURSUE DOMESTIC AND FOREIGN MONETARY AND FINANCIAL POLICIES TO ENHANCE THE MOBILIZATION OF DOMESTIC RESOURCES AND THE EFFICIENT USE OF FOREIGN BORROWINGS AND AVOID EXTERNAL FINANCIAL OBLIGATIONS WHICH COULD PROVE DETRIMENTAL OVER THE MEDIUM AND LONGER-TERM TO THEIR FINANCIAL SITUATION, THEREBY IMPEDING GROWTH;

- DONOR AND DEVELOPING COUNTRIES WOULD STRIVE TO ENCOURAGE EFFORTS BY THE IMF AND MULTILATERAL DEVELOPMENT FINANCE INSTITUTIONS TO IMPROVE DEVELOPING COUNTRY RESOURCE MANAGEMENT WITH PARTICULAR EMPHASIS ON RESOURCE ALLOCATION AND PROJECT SELECTION.

3. IN THIS CONNECTION, PARTICIPANTS FOUND IT USEFUL TO DISTINGUISH BETWEEN TWO DIFFERENT TYPES OF SITUATION. THE STRUCTURE AND PROSPECTS OF ALL ITEMS OF THE BALANCE OF PAYMENTS HAVE TO BE TAKEN INTO ACCOUNT IN EXAMINING BOTH TYPES OF SITUATION, BEARING IN MIND BALANCE OF PAYMENTS PROBLEMS MAY BE DERIVED FROM A NUMBER OF FACTORS SOME OF WHICH ARE WELL WITHIN THE CONTROL OF THE DEBTOR GOVERNMENT WHILE OTHERS LIE BEYOND THEIR CONTROL IN VARYING DEGREES.
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4. (A) THE FIRST TYPE IS A DEBT CRISIS INVOLVING DEFAULT OR IMMINENT DEFAULT ON DEBT SERVICING, AS WELL AS SERIOUS BALANCE-OF-PAYMENTS DIFFICULTIES IN WHICH DEBT SERVICING PAYMENTS PLAY A MAJOR ROLE. THIS SITUATION IS CHARACTERIZED BY THE FACT THAT IT CANNOT BE REMEDIED, IN THE SHORT-TERM, BY APPROPRIATE INTERNAL AND EXTERNAL ADJUSTMENT MEASURES WHICH THE DEBTOR

COUNTRY CAN REALISTICALLY BE EXPECTED TO TAKE. CONSEQUENTLY, THERE IS A NEED FOR EFFICIENT AND EQUITABLE RECOURSE TO DEBT RE-ORGANIZATION AS A LAST RESORT.

(B) THE SECOND TYPE OF SITUATION IS OF A LONGER TERM NATURE, INVOLVING STRUCTURAL, FINANCIAL AND TRANSFER OF

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RESOURCES PROBLEMS, WHERE AN ADVERSE STRUCTURE OF THE BALANCE OF PAYMENTS HAMPERS DEVELOPMENT BY INTER ALIA CONSTRAINING THE CAPACITY TO ENSURE ESSENTIAL IMPORTS. IN THIS SITUATION, THE COUNTRY CONCERNED IS NOT FACING DEFAULT, OR IMMINENT DEFAULT, ON EXTERNAL DEBT SERVICING AND THERE WOULD BE MORE SCOPE FOR TIMELY AND APPROPRIATE INTERNAL AND EXTERNAL ADJUSTMENT MEASURES ALONG THE LINES DESCRIBED IN PARAGRAPH 2 ABOVE, INCLUDING ALL THOSE AFFECTING THE QUANTITY, QUALITY AND USE OF EXTERNAL RESOURCE TRANSFERS. IN THE PRESENT WORLD ECONOMIC SITUATION, THERE ARE SOME CASES AMONG MSA AND

LEAST-DEVELOPED COUNTRIES IN PARTICULAR WHERE DEVELOPMENT PROSPECTS HAVE BEEN SERIOUSLY REDUCED BY EXTERNAL FACTORS. SUCH PROBLEMS, WHICH MAY LEAD TO DIFFICULTIES IN IMPLEMENTING THEIR DEBT SERVICE, CONSTITUTE GENERAL PROBLEMS OF TRANSFER OF RESOURCES.

DEBT DEFAULT SITUATIONS

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5. PARTICIPANTS IN THE CIEC NOTED THAT DEBT DEFAULT SITUATIONS WOULD BE TREATED, ON A CASE BY CASE BASIS, IN CREDITOR CLUBS, AT THE REQUEST OF THE DEBTOR CONCERNED. WITHIN THESE CLUBS THE PROBLEMS OF THE DEBTOR CONCERNED WOULD BE DISCUSSED IN A SPIRIT OF COOPERATION.

6. PARTICIPANTS IDENTIFIED THE FOLLOWING FEATURES WHICH COULD CHARACTERIZE DEBT REORGANIZATION IN DEFAULT SITUATIONS AND RECOMMENDED THAT, SUBJECT TO SUITABLE MODIFICATIONS IN INDIVIDUAL CASES, THEY SHOULD BE USED TO PROVIDE GUIDANCE IN FUTURE SUCH REORGANIZATIONS:

(I) CREDITOR AND DEBTOR COUNTRIES SHOULD ENSURE THAT RENEGOTIATIONS WOULD BE COMPLETED EXPEDITIOUSLY IN ORDER TO REDUCE TO THE MINIMUM ANY UNCERTAINTIES ASSOCIATED WITH THEM.

(II) THE DEBTOR COUNTRY WOULD UNDERTAKE A COMPREHENSIVE ECONOMIC PROGRAMME DESIGNED TO STRENGTHEN ITS UNDERLYING BALANCE OF PAYMENTS SITUATION. THIS PROGRAMME WOULD, AS A GENERAL RULE, BE WORKED OUT WITH, AND MONITORED BY, THE IMF.

(III) DEBT REORGANIZATION AND THE PROGRAMME OF ECONOMIC MEASURES WOULD TAKE INTO ACCOUNT THE DEVELOPMENT PROSPECTS OF THE DEBTOR COUNTRY, THEREBY ENABLING IT TO CONTINUE DEBT SERVICING PAYMENTS AND RESTORE ITS DEBT SERVICING OBLIGATIONS OVER THE LONGER TERM.

(IV) THE MODALITIES OF DEBT REORGANIZATION WOULD BE DETERMINED FLEXIBLY, ON A CASE BY CASE BASIS, TAKING INTO ACCOUNT, ON THE ONE HAND, THE ECONOMIC SITUATION AND PROSPECTS OF THE DEBTOR COUNTRY, THE DEVELOPMENT PROSPECTS AND THE FACTORS CAUSING THE DEBT SERVICE DIFFICULTIES AND, ON THE OTHER HAND, THE LEGITIMATE INTERESTS OF THE CREDITORS. IT SHOULD ALSO BE RECOGNIZED THAT THE DEBTOR COUNTRY'S IMPLEMENTATION OF ITS VIABLE ECONOMIC POLICIES IS ESSENTIAL TO THE LONG-TERM EFFECTIVENESS OF A RESCHEDULING EXERCISE.

(V) DEBT REORGANIZATION WOULD COVER OFFICIAL AND
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OFFICIALLY GUARANTEED DEBT WITH A MATURITY OF OVER ONE
YEAR.

(VI) CONSOLIDATION PERIODS WOULD NORMALLY BE KEPT
RELATIVELY SHORT AND GENERALLY WOULD NOT EXTEND, AS TO
FUTURE MATURITIES, BEYOND THE YEAR IN WHICH THE RE-
ORGANIZATION IS UNDERTAKEN.

(VII) EQUALITY AND NON-DISCRIMINATION AMONG ALL
CREDITORS, INCLUDING THOSE NOT PARTICIPATING IN THE
CREDITOR CLUB, IS AN ESSENTIAL PRINCIPLE UNDERLYING THE
OPERATION OF DEBT RENEGOTIATIONS. CREDITOR COUNTRIES
WITH MINOR DEBTS DUE, WHICH FREQUENTLY INCLUDE DEVELOP-
ING COUNTRIES, WOULD GENERALLY, HOWEVER, BE EXCLUDED
FROM THE MULTILATERAL DEBT RENEGOTIATION.

(VIII) IN RESPECT OF ITS PRIVATE NON-OFFICIALLY
GUARANTEED DEBT, THE DEBTOR COUNTRY WOULD BE EXPECTED
TO NEGOTIATE DEBT REORGANIZATION WITH PRIVATE CREDITORS
ON TERMS SIMILAR TO THOSE AGREED IN THE CREDITOR CLUB
FOR ITS OFFICIAL AND OFFICIALLY GUARANTEED DEBT.

(IX) DEBT REORGANIZATION ARRANGEMENTS WOULD PROVIDE

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FOR FLEXIBILITY TO REVIEW THE SITUATION AT THE END OF THE CONSOLIDATION PERIOD IN THE LIGHT OF UNFORESEEN CIRCUMSTANCES. THEY WOULD ALSO PROVIDE FOR ACCELERATED REPAYMENTS IN AN AGREED MANNER IF THE DEBTOR'S ECONOMIC SITUATION IMPROVED MORE RAPIDLY THAN ANTICIPATED.

II. REMEDIAL MEASURES TO DEAL WITH SITUATIONS OF A LONGER-TERM NATURE

7. PARTICIPANTS IN THE CIEC NOTED THAT THOSE DEVELOPING COUNTRIES WHICH DEPEND LARGELY UPON AID FOR THEIR EXTERNAL CAPITAL RESOURCES CANNOT ALWAYS DEAL WITH THE SECOND SITUATION DESCRIBED IN PARAGRAPH 5 ABOVE WITHOUT HELP FROM AID DONORS. AT THE REQUEST OF THE RECIPIENT CONCERNED, THESE CASES WOULD BE CONSIDERED EXPEDITIOUSLY IN AN APPROPRIATE FORUM ON AN INDIVIDUAL BASIS, WITH A VIEW TO PROVIDING AID IN FORMS BETTER ADAPTED TO THE BALANCE OF PAYMENTS NEEDS OF THE RECIPIENT IN THE LIMITED OFFICIAL USE

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PERIOD OF DIFFICULTY FORESEEN.

8. PARTICIPANTS IDENTIFIED A NUMBER OF FEATURES DISCERNED FROM PAST OPERATIONS AS WELL AS IN THE LIGHT OF THE PRESENT SITUATION AND INCORPORATED THEM IN THE FOLLOWING PROCEDURE. THEY RECOMMENDED THE PROCEDURE, SUBJECT TO SUITABLE MODIFICATION IN INDIVIDUAL CASES, AS AN EFFECTIVE WAY OF IDENTIFYING AND EXAMINING AS QUICKLY AS POSSIBLE COUNTRIES PRESENTLY CONFRONTED BY SUCH SITUATIONS AND ENSURING THAT APPROPRIATE ACTION IS TAKEN EXPEDITIOUSLY TO ASSIST THEIR DEVELOPMENT EFFORTS. THE PROCEDURES WOULD ALSO RESPOND TO FUTURE SITUATIONS OF THE SAME SORT WHICH COULD UNDULY IMPINGE UPON A COUNTRY'S DEVELOPMENT PROSPECTS.

(I) A DEVELOPING COUNTRY WHICH BELIEVES IT HAS A

DEVELOPMENT PROBLEM OF THE TYPE DESCRIBED ABOVE, OF WHICH DEBT IS AN ELEMENT, WOULD, BEFORE THE PROBLEMS HAVE REACHED CRISIS PROPORTIONS, REQUEST AN EXAMINATION OF ITS SITUATION BY THE IBRD OR ANOTHER APPROPRIATE MULTILATERAL DEVELOPMENT FINANCE INSTITUTION MUTUALLY AGREED UPON. THESE REQUESTS SHOULD STATE THE GROUNDS ON WHICH THE REQUEST IS JUSTIFIED, AND PROVIDE ALL THE RELEVANT DATA.

(II) THE RELEVANT INSTITUTION WOULD THEN EXAMINE THE REQUEST, PAYING PARTICULAR ATTENTION TO THE FOLLOWING ELEMENTS:

(A) THE RELATIVE POVERTY OF THE DEVELOPING COUNTRY CONCERNED AND ITS LONG-TERM GROWTH POTENTIAL;

(B) THE EXTENT TO WHICH THE COUNTRY CONCERNED DEPENDS ON ODA FOR ITS EXTERNAL CAPITAL RESOURCES;

(C) THE EXTENT TO WHICH FACTORS OPERATING IN THE INTERNATIONAL ECONOMY CONTRIBUTED TO THE CURRENT AND PROSPECTIVE ECONOMIC PROBLEMS OF THE COUNTRY;

(D) DEVELOPMENTS IN AND PROSPECTS FOR EXPORT RECEIPTS;

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(E) THE CAPACITY TO ENSURE IMPORTS ESSENTIAL TO THE DEVELOPMENT PROCESS, SUCH AS FERTILIZER AND OTHER AGRICULTURAL INPUTS, FOODSTUFFS, ENERGY, CAPITAL GOODS (AND SPARE PARTS) AND INDUSTRIAL RAW MATERIALS, AND THE IMPACT WHICH THE SITUATION HAS ALREADY HAD UPON ESSENTIAL IMPORTS;

(F) THE COMPOSITION AND TREND OF DEBT SERVICE OBLIGATIONS AND ITS CAPACITY FOR ANY FURTHER BORROWING UPON NON-CONCESSIONAL TERMS.

(III) IF IN THE LIGHT OF THESE ELEMENTS ANY FURTHER STEPS SEEMED NECESSARY, THE RELEVANT INSTITUTION WOULD THEN ANALYZE THE GENERAL ECONOMIC SITUATION OF THE COUNTRY. THIS ANALYSIS WOULD INCLUDE, INTER ALIA,

(A) AN ASSESSMENT OF:

- THE EFFECTIVENESS OF THE COUNTRY'S USE OF BOTH DOMESTIC AND EXTERNAL RESOURCES FOR SAFEGUARDING ITS DEVELOPMENT PROCESS, SUCH AS MOBILIZATION OF DOMESTIC SAVINGS, PRIORITIES FOR NEW INVESTMENT, AND EXPORT PROMOTION;

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- ITS FISCAL AND OTHER ECONOMIC POLICIES;

- ITS MEASURES FOR MONITORING EXTERNAL
CREDITS AND OTHER MEASURES TO AVOID DEBT-SERVICING
DIFFICULTIES;

(B) ESTIMATES OF CAPITAL REQUIREMENTS AND
PROJECTED AVAILABILITIES;

(C) AN APPRECIATION OF THE LEVEL OF ODA WHICH
IS AVAILABLE IN APPROPRIATE FORMS;

(D) THE IMF'S ASSESSMENT OF THE COUNTRY'S
BALANCE OF PAYMENTS AND EXCHANGE RATE POLICIES AND
PROSPECTS, INCLUDING DEBT SERVICING, AND AN ASSESSMENT
OF ITS MONETARY POLICY AND THE EXTENT TO WHICH THE

DEVELOPING COUNTRY HAS MADE USE OF IMF FACILITIES.

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(IV) THE RELEVANT INSTITUTION WOULD, IF THE ANALYSIS REVEALS THAT, IN THE CONTEXT OF DEVELOPMENT POLICY, THE PROSPECTS OF THE COUNTRY IN QUESTION ARE SERIOUSLY HAMPERED, CONTACT THE AID DONORS TO DISCUSS, ON AN URGENT BASIS, WITH THE DEVELOPING COUNTRY ITS NEEDS BY MUTUAL AGREEMENT. THIS COULD BE DONE WITHIN THE FRAMEWORK OF CONSORTIA AND CONSULTATIVE GROUPS. OTHERWISE, THE RELEVANT INSTITUTION COULD ORGANIZE AD HOC MEETINGS OF DONORS OR CONTACT DONORS INDIVIDUALLY IN CASES WHERE THIS IS APPROPRIATE. THE INTERNATIONAL INSTITUTION WOULD SUBMIT A REPORT TO THE DONOR COMMUNITY AND THE RECIPIENT COUNTRY, ON THE CONCLUSIONS OF THE ABOVE ANALYSIS, AND ON THOSE COMBINATIONS OF NATIONAL AND INTERNATIONAL POLICY ACTIONS THAT MIGHT BE TAKEN TO RESORTE THE COUNTRY TO A REASONABLE DEVELOPMENT PATH AS QUICKLY AS POSSIBLE. IT WOULD ALSO INVITE ALL CONCERNED TO EXAMINE THE REPORT SYMPATHETICALLY.

(V) DONOR COUNTRIES AND THE RECIPIENT COUNTRY WOULD URGENTLY TAKE THE CONCLUSIONS OF THE ANALYSIS MADE BY THE RELEVANT INSTITUTION INTO SERIOUS CONSIDERATION. WHERE THE REPORT LEADS TO BROAD AGREEMENT THAT THE DEVELOPING COUNTRY IS ENCOUNTERING LONG-TERM FINANCIAL DIFFICULTIES IMPINGING UNDULY ON ITS DEVELOPMENT PROGRESS, THE DONOR COUNTRIES TAKING PART IN THE OPERATION WOULD, TO THE BEST OF THEIR ABILITIES, ENHANCE ASSISTANCE EFFORTS IN RESPONSE TO THE DEVELOPING COUNTRY DEMONSTRATING ITS WILLINGNESS TO TAKE CORRECTIVE MEASURES ON ITS OWN BEHALF, INsofar AS IT IS ABLE. SUCH AN EFFORT WOULD BE DIRECTED TOWARDS INCREASING THE QUANTITY OF AID IN APPROPRIATE FORMS AND IMPROVING THE QUALITY SO THAT TERMS ARE APPROPRIATE TO THE ECONOMIC SITUATION AND THE DEVELOPMENT PROSPECTS OF THE RECIPIENT COUNTRY.

(VI) AMONG THE VARIOUS MEASURES WHICH COULD BE TAKEN BY A DONOR COUNTRY FOR THIS PURPOSE, PROGRAMME AID, OTHER FLEXIBLE FORMS OF QUICKLY DISBURSABLE AID WOULD BE CONSIDERED PREFERABLE TO ODA DEBT REORGANIZATION. WHATEVER THE DONOR'S CHOICE, THIS SUPPLEMENTARY EFFORT WILL BRING ABOUT AN IMPROVEMENT OF THE SITUATION OF THE RECIPIENT COUNTRY.

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(VII) IF THE DONOR CHOOSES DEBT REORGANIZATION, THE
CONCESSIONAL ELEMENT OF REORGANIZED ODA WOULD BE AS

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GREAT AS THE AVERAGE CONCESSIONAL ELEMENT OF COMPARABLE
NEW ODA PROVIDED BY THE DONORS CONCERNED.

(VIII) MULTILATERAL DEVELOPMENT FINANCE INSTITUTIONS
WOULD CONSIDER COMMITTING NEW RESOURCES IN AN APPROPRIATE
FORM WITHIN THEIR LENDING POLICIES AND PRACTICES.

(IX) THE RECIPIENT COUNTRY WOULD TRY TO MAKE
EQUIVALENT ARRANGEMENTS WITH DONOR COUNTRIES NOT TAKING
PART IN THE OPERATION TO ENSURE COMPARABLE ASSISTANCE
EFFORTS BY ALL OTHER SUCH COUNTRIES AND TO ENSURE THAT
THE INCREASED BALANCE OF PAYMENTS FLEXIBILITY PROVIDED
WAS NOT INDIRECTLY USED FOR THE BENEFIT OF THESE OTHER

DONOR COUNTRIES.

10. PARTICIPANTS IN THE CIEC INVITED THE IBRD, AND ANY
OTHER MULTILATERAL DEVELOPMENT FINANCE INSTITUTION
RECEIVING REQUESTS ACCORDING TO THE ABOVE PROCEDURE, TO
GIVE PRIORITY, IN THE PRESENT ECONOMIC SITUATION, TO
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AFFECTED DEVELOPING COUNTRIES. UNQUOTE
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEXT, LESS DEVELOPED COUNTRIES, RESOLUTIONS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 NOV 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ullricre
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976OECDP34495
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760432-0080
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761130/aaaaazty.tel
Line Count: 562
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ullricre
Review Comment: n/a
Review Content Flags:
Review Date: 26 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <26 APR 2004 by hartledg>; APPROVED <08 NOV 2004 by ullricre>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REVISED EEC/US PROPOSALS ON LDC DEBT FOLLOWING IS TEXT OF REVISED US/EC PROPOSALS ON LDC DEBT PRESENTED TO CONTACT GROUP ON DEBT NOVEMBER 1
TAGS: EAID, EFIN, OECD, CIEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006